PENSIONS
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Irish Life

BUDGET 2018

ADVISORY SERVICES UPDATE

This document provides commentary and summary of the main changes announced in the Budget Tuesday 10th October 2017.

- Economic commentary by Lenny McLoughlin
- Pension Advisory Services' Overview on pages 3 & 4
- Life Advisory Services' Overview on pages 5 & 6
- Tax and Social Welfare Rate Summary on page 7

Irish Budget Economic Commentary
By Lenny McLoughlin, Economist, Irish Life Investment Managers

The economic backdrop to the 2018 budget is positive despite some uncertainty related to the potential impact of Brexit. The overall global economic outlook is the strongest since 2010 with the global economy growing at a 3.7% annualised rate in Q2. Being a relatively open economy with exports accounting for a large share of GDP, this is supportive of the Irish economy. Domestic demand has recovered strongly in recent years, highlighted by the strong labour market with unemployment declining from a post crisis peak of 15.2% to 6.1% currently with numbers employed at 2.1m, the highest since 2008 and up 238,000 from the 2012 low. Retail sales remain strong and are currently up 4.7% y/y at the headline level and 6.7% y/y ex autos. The residential property market has continued to recover with national prices currently up 12.3% y/y and 62% from the 2013 low.

Headline GDP grew 5.2% in 2016. In Q2 2017, GDP grew 1.4% q/q and 5.8% y/y. Domestic demand grew 19.1% q/q but ex multinational effects grew 2.2% y/y in the first half of 2017. Government expenditures grew 0.6% q/q in Q2 while fixed capital formation was up 39.9% although excluding the volatile multinational element, gross capital formation rose 3.1% q/q or 11.1% y/y. Personal consumption expenditures fell -1.1% q/q due to softness in car sales related to sterling weakness although excluding this item, consumption remained strong as highlighted by the strong retail sales figures.

On the basis of the above, the government forecasts GDP growth of 4.3% in 2017 and 3.5% in 2018. While representing some slowdown compared to recent years, these projections still place Ireland at the top end of Eurozone and most developed markets economic performance in coming years. However, while maintaining a positive outlook, the Department of Finance did identify a number of potential risks to growth centred on Brexit, the recent strength in the Euro, policy uncertainty in the US and global geopolitical issues while domestically, housing supply pressures have been noted.

In contrast to recent years, the annual fiscal position ahead of the budget was only marginally ahead of target therefore limiting the room for manoeuvre in this budget. To the end of September the deficit for 2017 was €506m better than expected although this was partly due to delayed EU payments of €219m. Tax revenues year to date are actually slightly behind target by about -0.6% although this is partly offset by current expenditures also being slightly below expectations by approx. -0.3%.

In the lead up to the budget, the Minister for Finance highlighted that Ireland's debt levels, despite falling significantly in recent years to close to 70% of GDP this year, were still too high and the medium term aim is to reduce this further. The fiscal space available in respect of the 2018 budget had previously been indicated as being €500m with €180m of this already allocated in prior commitments. With an announcement of revenue raising measures in today's budget of €830m, the fiscal package outlined today was effectively €1.2bn with expenditure increases of €898m and tax reductions of €335m.

In terms of budget details, on the expenditure side, capital spending was a significant focus both in 2018 and in coming years with additional capital expenditure of €4.3bn planned over the next four years, effectively doubling capital spending from 2015 to 2021. Housing was also a priority given the current housing shortage evident across the country with €1.8bn allocated for housing spending in 2018. In addition, the Ireland Strategic Investment Fund will also make €750m available for commercial investment in housing finance. Other areas receiving increased spending budgets included health, education with 1,300 additional teaching roles in 2018, justice with the planned additional recruitment of 800 Gardaí, childcare and social welfare spending with a €5 per week increase in all social welfare payments and a €5 increase in the state pension. Pressures from Brexit were also recognised with a €300m loan scheme to be established offering competitive rates to help Small and Medium Enterprises deal with the difficulties caused by Brexit. Assistance will also be provided to the tourism, transport and agricultural sectors to tackle Brexit related issues and improve competitiveness.

A new 'Rainy Day' fund is also being established to protect the economy and national finances against any severe negative scenarios in future years with at least €1.5bn to be transferred to the fund from the Ireland Strategic Investment Fund to get it started. An annual contribution of €500m to the 'Rainy Day' fund will begin in 2019.

In terms of tax reductions, the threshold for the higher rate of income tax was increased by €750 while the entry rate for single earners was increased from €33,800 to €34,550. In relation to USC, the 2.5% rate is being reduced to 2% with the ceiling for this rate being raised to €19,372 from €18,772. The 5% USC rate is being reduced to 4.75%.

Revenue raising measures included an increase in stamp duty on commercial property transactions from 2% to 6%. A refund however under certain conditions will be available for commercial land purchased for the development of housing. The vacant site levy is also being increased from 3% to 7% in the second and subsequent years that a site is vacant. Details of the previously announced tapering of mortgage interest relief for homeowners was also outlined with 75% of the existing relief remaining in place in 2018, 50% in 2019 and 25% in 2020. Excise duty on a pack of twenty cigarettes was increased by 50c. A tax on sugar sweetened drinks is being introduced at a rate of 30c per litre on drinks with over 8 grams of sugar per 100 millilitres. VAT on sunbed services was raised to 23%.

Overall, the government estimated that the headline fiscal deficit will be 0.3% of GDP in 2017 falling to 0.2% in 2018 when taking account of measures announced today.

Pensions Overview

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The only pension change announced by Minister Donohoe in his Budget speech is the increase in social welfare payments including the state pension by €5 per week, with the full rate contributory pension going to €243.30 per week from the end of March 2018.

Key Points on Pensions

- No change to the marginal rate income tax relief on pension contributions
- No change to the tax exemption that applies on pension investment income
- No change to retirement lump sum options or €200,000 tax free lump sum threshold
- No change to the AMRF limit of €63,500 or guaranteed income requirement of €12,700

The Finance Bill will follow next week, Thursday 19th October and we will be monitoring this in case there are any technical changes, and if there are then we will of course let you know.

Social Welfare

The state pension will rise by €5 per week. Once this increase happens in March next year, this will bring the full rate state pension (contributory) to €12,651. The state pension continues to form an important part of retirement income planning for many clients, though the concerns about long-term sustainability remain.

In the context of the €12,700 guaranteed income requirement before being eligible for an ARF, when this increase commences, it leaves a small pension income shortfall. Some clients will have other pension income that will bridge this gap, and some might have the option to purchase a pension to do so. Note that most annuity providers will have a product minimum purchase price or other fixed costs that restricts very small annuities.

If clients are not currently in receipt of the specified pension income they will have to invest €63,500 in an AMRF, or to purchase an annuity, before being eligible for an ARF. In the longer term it may make sense if the income requirement and the full-rate state pension were set at matching amounts to provide consistency and certainty.

Where a client is in receipt of pension income above €12,700 then they have immediately met the income requirement. Their AMRF becomes an ARF subject to the imputed distribution requirement (from the year they turn age 61, or 60 if date of birth is 1 January). They cannot choose for their AMRF to continue as an AMRF and without the imputed distribution. If they do not inform Irish Life of their income then we will not pay an automatic income to them, however the tax liability will still apply and will continue to accrue with the risk of interest and penalties. It is important that clients let us know when their pension income exceeds €12,700 so that they do not face this risk.

There are some circumstances where an increase to the state pension applies:

- Increase where the person is living alone – currently €9.00 per week
- Increase where the person is ordinarily resident on an island off the coast of Ireland – currently €12.70 per week

We are currently in discussions with Revenue as to the impact where clients are receiving such state pension increases given that these could cease if the persons circumstances changes. Revenue has also clarified that the following Social Welfare benefits may be included towards the specified income requirement:

- Old Age (Contributory) Pension
- Invalidity Pension
- Widow's /widower's/ surviving civil partner's (Contributory) Pension
- Old Age (Non Contributory) Pension
- Blind Pension
- Widow's /widower's/surviving civil partner's (Non Contributory) Pension

Note that for a social welfare benefit to be included it must be classed as pensions under the Social Welfare Consolidation Act 2005, which is the case for the above benefits. It is important to be aware that there are other Social Welfare benefits payable classed as allowances or benefits, for example the "illness benefit" and "disability allowance" which relate to shorter term absence from work and are not classed as pension benefits.

We are continuing to clarify the position of state pension benefits in the context of the €12,700 specified income requirement in advance of the increases due March 2018.

Government Pension Roadmap 2017 – 2021

It was surprising that there was no reference in the Budget speech to the Taoiseach's recent announcement that the Government will be publishing its 5 year roadmap for pensions before the end of this year. A significant element of this is the proposal to introduce pension scheme auto-enrolment in 2021.

Leo Varadkar has talked a number of times of his wish to introduce pension auto-enrolment for workers. The Government's proposals for pensions over this period will likely include

- Simplification and reform for Defined Contribution pension arrangements
- Implementation of the EU pensions directive, IORPs II
- Auto-enrolment

The first steps are likely to be the introduction of legislation required by January 2019 under the EU pensions directive, IORPS II, which includes increased governance requirements for trustees. This is likely to continue the move away from employers acting as trustee and towards appointing professional trustees.

While simplification is not part of the EU directive, the Pensions Authority is also looking at the rules governing Defined Contribution schemes, including personal pensions and PRSAs. The majority of current pension rules were put in place for Defined Benefit schemes and the expectation of people staying in one employment for the majority of their career. This is no longer the reality for most people. Simplification, by having consistent retirement and transfer rules across the various pension products, can allow greater focus on a client's need to set income aside now to have an adequate income in retirement.

Looking further forward, the Government have said their wish to see auto-enrolment commence in 2021. This would mean that employees, once they are over a certain age and certain income threshold, will automatically become members of a pension scheme. They will then have the choice to opt-out after a certain period, say 6 months. The hope is that once people are in a pension scheme and used to making contributions, they will continue to do so. The international experience shows that this is true for the majority of people. If we look at the UK experience, opt-out rates have been lower than expected at approx. 9%. The impact has been that the proportion of private sector workers in a pension scheme has increased from 42% in 2012 to 73% in 2017. The UK experience of auto-enrolment has been that employers may need some assistance establishing schemes, but with contributions increasing at fixed rates and 90%+ of members in default investment funds, there is little need for ongoing advice. The need for advice does remain for pension funding above the auto-enrolment minimum.

We believe that it is important that clients can save in the long-term with confidence. This requires that members trust that pension schemes will be well run. It requires that members are consistently kept well informed, and can understand their options, so that they can make informed decisions. And it requires a regulatory environment that is stable, in order to support long-term planning. We continue to remain willing to work with the Government and regulators to achieve the best outcome for clients pensions needs.

Life, Savings & Investments Overview

Capital Acquisitions Tax (CAT)

There have been significant changes to the CAT (gift and Inheritance tax) legislation over the last number of years, starting with the substantial reduction of the tax free thresholds and an increase in the tax rate to 30% in 2012.

More recently some of the 'more popular' reliefs and exemptions have also been amended to restrict their usefulness, most notably the relief for agricultural property which was altered to ensure that it can only be availed of by actual 'farmers' and, just last year, the Dwelling House exemption was also significantly curtailed.

While many suggestions have been made about capping other reliefs in various pre-budget submissions, there has been no further move this year to make additional amendments to the CAT legislation / reliefs governing how your client's gift or inheritance tax liability will be calculated.

Indeed the only CAT related change announced in the budget was a broadening of the conditions for agricultural relief to allow agricultural land placed under solar infrastructure to continue to be classified as agricultural land.

This change is also to apply for the purposes of Retirement Relief from Capital Gains Tax.

This announcement is part of a package of measures to facilitate the transfer of farms to young farmers, and includes the extension of relief from stamp duty where agricultural land is being transferred to a family member (consanguinity relief).

This 'lack of change' means that the valuable reliefs available to life assurance savings and protection contracts, under Section 72 and Section 73 of the CAT legislation, are still available to your clients.

Any other asset, when passed to a beneficiary, will only increase the beneficiaries' gift or inheritance tax liability.

A 'specifically endorsed' life assurance savings or protection plan, if used to pay a beneficiaries 'relevant tax' (gift or inheritance tax) bill will NOT increase the tax liability.

This is a very important benefit which is only available to life assurance savings and protection plans. So only you, as the advisor, can bring this solution to your clients.

Tax on life assurance protection savings and investment contracts

With the progressive reduction in the rate of DIRT announced in last years budget many industry bodies, including Irish Life, have lobbied government to have the 'savings and investments' playing field levelled for all, as the combination of both the government levy and exit tax which apply to life assurance contracts would seem to disadvantage those using life assurance vehicles.

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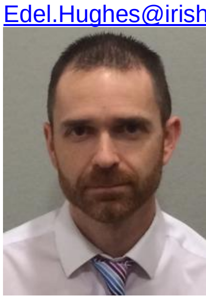

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Government levy and Exit Tax

Unfortunately, there has been no change announced to either the government 'stamp duty' of 1% charged on any premiums payable in respect of life assurance protection, savings or investment contracts or to the current exit tax rates of 25% for corporate investors and 41% for personal investors.

These charges will therefore continue to apply at the current rates.

The government levy, though introduced at a time when the government needed revenue, will continue to impact on savers despite lobbying by the life assurance industry.

Surely with the higher rates of growth now being achieved, as a result of strong gains in equity and bond markets, there would not be as great an impact on government revenues if they were reduced. Indeed a comparison is constantly being made between the rate of CGT on the increased value of other assets versus the seemingly punitive rate of 41% exit tax on life assurance savings and investment vehicles.

Taxation treatment of death benefits payable from protection plans

But on a positive note, no change has been announced to the tax treatment of the death benefits payable from life assurance 'protection' plans.

So no changes to the all important 'family protection' contracts you put in place to secure your clients families' future in the event of an untimely death.

Crucially this means there is no change to the taxation treatment of any BUSINESS PROTECTION arrangement you put in place to ensure the security and continuation of your clients business in the event of the death of either their business partner, in the form of a shareholder protection arrangement, or the death of an individual who is key to their business, or on who's death a loan might need to be repaid, in the form of keyperson cover.

It would seem to be a far more cost efficient option to put in place life assurance protection cover, be it a shareholder protection arrangement, or a keyperson cover arrangement, to ensure the continuity of your clients business, rather than having to try and borrow from the bank to obtain sufficient funds.

Again, these types of life assurance family and business protection arrangements only <u>you</u> can bring to your clients.

Other Items of Interest

Capital Gains Tax

An amendment will be made to the relief more widely known as '7-year CGT relief', which will allow the owners of qualifying land or buildings to sell those assets between the fourth and seventh anniversaries of when they were purchased and still enjoy a full relief from CGT on any chargeable gains.

USC changes

The following changes have been announced to the USC bands and rates and will apply from 1st January 2018 :

- 2.5% rate reduced to 2%
- €600 increase to €18,772 band ceiling
- 5% rate reduced to 4.75%

Income Tax

An increase of €750 has been announced to the income tax standard rate band for all earners. The bands will therefore increase from €33,800 to €34,550 for single individuals and from €42,800 to €43,550 for married one earner couples.

Increases to the Home Carer Tax Credit from €1,100 to €1,200 and to the Earned Income Credit from €950 to €1,150 have also been announced.

Mortgage Interest Relief

An extension of mortgage interest relief has been announced for those still eligible i.e. owner occupiers who took out qualifying mortgages between 2004 and 2012. 75% of the existing 2017 relief will be continued into 2018, 50% will be given into 2019 and 25% into 2020. The relief will cease entirely from 2021.

Benefit in Kind

To further incentivise the take up of electric vehicles, a 0% rate of Benefit in Kind (BIK) will be introduced in 2018.

Sugar Tax

A tax on sugar sweetened beverages is to be introduced on 1 April 2018. The tax will apply to sugar sweetened drinks with a sugar content between 5 grams and 8 grams per 100ml at a rate of 20c per litre. A second rate will apply for drinks with a sugar content of 8 grams or above at 30c per litre.

And finally …..

Increase in the VAT rate on sunbeds from 13.5% to 23%

In line with the Government's National Cancer Strategy, the VAT rate on sunbed services is being increased from 13.5% to the standard rate of 23% from 1 January 2018, in order to deter sunbed use.

Income Tax, PRSI and other Information

Income Tax Rates	No change
Standard Rate	20%
Higher Rate	40%

Standard Rate Bands	2018
Single / Widowed	
No dependent children	**€34,550**
With dependent children	**€38,550**
Married – one income	**€43,550**
Married – two incomes	**€43,550** + increase
*Increase is the lower of **€25,550** and income of lower earning spouse.*	

Income Tax Credits	2018
Personal	
Single	€1,650
Married	€3,300
PAYE Credit	€1,650
Earned Income Credit (Self Employed)	**€1,150**
One Parent Family	€1,650
Age Allowance (single)	€245

Income Exemption Limits	No change
Single / Widowed (aged 65+)	€18,000
Married (aged 65+)	€36,000

PRSI Rates	A1	S1
Employee		
All Income	4%	4%
(earnings less than €352pw exempt)		
Employer		
Income up to €19,552	**8.6%**	n/a
Income exceeding €19,553	**10.85%**	n/a

Universal Social Charge Rates from 1 January 2018	Employee	Self Employed
Income up to €12,012	0.5%	0.5%
Between €12,012 and **€19,372**	**2%**	**2%**
Between **€19,372** and €70,044	**4.75%**	**4.75%**
Between €70,044 and €100,000	8%	8%
Income in excess of €100,000	8%	11%
Total income less than €13,000 is exempt from the USC		
Full Medical Card Holders & Over 70s	Employee	Self Employed
Income up to €12,012	0.5%	0.5%
Income in excess of €12,012	**2%**	**2%**
However those with earnings greater than €60,000 will pay the normal USC rates		

Savings and Investment Tax	No change
DIRT	39%
Life Assurance Exit Tax – Personal plans	41%
Corporate owned	25%
Wrapper Products	60%

Social Welfare Benefits

For more information see www.welfare.ie

Social Welfare Benefits	March 2018	2017
State Pension (Contributory)		
Personal Rate	**€243.30**	€238.30
Personal + Adult dependent (over 66)	**€461.30**	€451.80
Widow / Widowers under 66	**€203.50**	€198.50
State Pension (Non – Contributory)		
Personal Rate	**€232.00**	€227.00
Personal + Adult dependent (under 66)	**€385.30**	€377.00
Widow / Widowers under 66	**€198.00**	€193.00
Invalidity Pension		
Personal Rate (65 and under)	**€203.50**	€198.50
Personal + Adult dependent	**€348.80**	€340.20
Disability Allowance		
Personal Rate	**€198.00**	€193.00
Personal + Adult dependent	**€329.40**	€321.10
Jobseekers / Illness Benefit		
Personal Rate	**€198.00**	€193.00
Personal + Adult dependent	**€329.40**	€321.10
Jobseeker's Allowance		
18 to 24 years of age		
Personal Rate	**€107.70**	€102.70
Personal + Adult dependent	**€215.40**	€205.40
25 years of age		
Personal Rate	**€152.80**	€147.80
Personal + Adult dependent	**€284.20**	€275.90
26 years of age and over		
Personal Rate	**€198.00**	€193.00
Personal + Adult dependent	**€329.40**	€321.10
Increase for each dependent child	**€31.80**	€29.80
Where a person aged 18 to 24 has a dependent child the basic personal rate of €188 and not the reduced rate applies		

Child Benefit	2018	2017
Rate per child	€140.00	€140.00

Capital Acquisitions Tax 2018 – No change	
Group A	€310,000 (child)
Group B	€32,500 (lineal ancestor/decedent, brother, sister or child of brother or sister
Group C	€16,250 (Others)
The thresholds apply to all gifts and inheritances received since 5 December 1991.	
Tax Rate On all gifts / inheritances above thresholds	33%
Annual Gift Exemption	€3,000
The annual small gift exemption can be availed of regardless of the relationship between the disponer and the beneficiary. The exemption is limited to one gift per beneficiary from each disponer in a calendar year. It does not impact on the CAT Thresholds noted above.	